

Message Text

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PAGE 01 STATE 270676
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TO AMEMBASSY TOKYO IMMEDIATE

S E C R E T STATE 270676

LIMDIS

FOLLOWING REPEAT KUWAIT 6362 ACTION SECSTATE ABU DHABI ALGIERS
BAGHDAD CARACAS DOHA JAKARTA JIDDA LAGOS LIBREVILLE LONDON
USUN NEW YORK QUITO TEHRAN TRIPOLI VIENNA DATED NOV 09:

QTE: S E C R E T KUWAIT 6362

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, OPEC

SUBJECT: US DEMARCHE ON OIL PRICE QUESTION

REF: (A) STATE 264256, (B) KUWAIT 6096 (NOTAL).

1. CHARGE CALLED ON FOREIGN MINISTRY UNDERSECRETARY RASHID
AL-RASHID NOVEMBER 8TH TO MAKE DEMARCHE ON OIL PRICE QUESTION
AND LEFT AIDE MEMOIRE BASED ON PARAS 4-11 REF A. REFERRING
TO CONVERSATIONS TREASURY SECRETARY BLUMENTHAL HAD HAD WITH
FOREIGN MINISTER AND FINANCE MINISTER (RASHID AL-RASHID WAS
ABSENT AT THE TIME), CHARGE NOTED THAT SECRETARY HAD
SECRET

SECRET

PAGE 02 STATE 270676

EMPHASIZED THAT ECONOMICS AND POLITICS COULD NOT BE
SEPARATED. WHILE AL-RASHID WAS NOT FREQUENTLY CLOSELY
INVOLVED IN ECONOMIC MATTERS, IT WAS PRECISELY THE POLITI-
CAL DIMENSION OF THE OIL PRICE SITUATION WHICH LED
CHARGE TO SPEAK WITH AL-RASHID.

2. CHARGE EMPHASIZED STRONG USG CONVICTION THAT

ANY OIL PRICE RISE WOULD CAUSE DAMAGE NOT ONLY TO THE US AND WORLD ECONOMY BUT ALSO TO KUWAIT AS A SIGNIFICANT INVESTOR ABROAD. NEGATIVE ECONOMIC EFFECTS WOULD HAVE OBVIOUS POLITICAL IMPLICATIONS FOR COUNTRIES IN FRAGILE ECONOMIC CONDITION SUCH AS FRANCE, ITALY, SPAIN, PORTUGAL AND MANY OTHERS. FURTHERMORE, AS HAD BEEN POINTED OUT DURING SECRETARY BLUMENTHAL'S VISIT, PRESIDENT CARTER'S ABILITY TO CONTINUE EFFECTIVELY TO PROMOTE PEACE IN THE MIDDLE EAST--AN OBJECTIVE OF HIGHEST PRIORITY TO BOTH GOK AND USG--COULD BE WEAKENED BY A NEGATIVE US PUBLIC AND CONGRESSIONAL REACTION TO AN OIL PRICE RISE.

3. RECENT PRESS REPORTS FROM VIENNA QUOTING VARIOUS OPEC REPRESENTATIVES AS FAVORING "MODERATE" PRICE RISES WERE ENCOURAGING, CHARGE SAID, BUT WE COULD NOT EMPHASIZE ENOUGH OUR STRONGLY HELD VIEW THAT TRUE MODERATION AT THIS TIME MEANS NO PRICE INCREASE AT ALL DURING 1978. GIVEN THE FRAGILITY OF THE WORLD ECONOMY, A MODERATE PRICE INCREASE SIMPLY WAS NOT GOOD ENOUGH.

4. RASHID AL-RASHID REPLIED THAT THE US POSITION HAD BEEN MADE VERY CLEAR TO THE AMIR, THE FINANCE MINISTER AND THE FOREIGN MINISTER BY TREASURY SECRETARY BLUMENTHAL DURING HIS RECENT VISIT. GOK, RASHID AL-RASHID SAID, HAD BEEN QUITE MODERATE IN PAST ON OIL PRICES. IN FACT, HE HIMSELF HAD BEEN INVOLVED IN 1977 IN TRYING TO REACH COMPROMISE
SECRET

SECRET

PAGE 03 STATE 270676

BETWEEN THE SHAH AND THE SAUDIS IN ORDER TO COME OUT WITH BASICALLY MODERATE 10 PERCENT RISE. UNFORTUNATELY, RASHID SAID, SUPPLIERS IN SOME INDUSTRIALIZED COUNTRIES DID NOT FOLLOW MODERATE COURSE. (HE CAREFULLY EXCLUDED U.S. FROM THESE REMARKS, BUT WHETHER MERELY OUT OF COURTESY OR BECAUSE OF CONVICTION WAS NOT CLEAR.) HE LAUNCHED INTO LONG, DETAILED AND VEHEMENT ATTACK ON PRACTICES OF VARIOUS SUPPLIERS IN RAISING THEIR PRICES DRASTICALLY IN RESPONSE TO AND EVEN IN ANTICIPATION OF 10 PERCENT OIL PRICE RISE. JAPANESE, HE COMPLAINED, WERE THE WORST OFFENDERS SINCE THEY "CARTELIZED" THE PRICES OF MANY OF THEIR GOODS AND VASTLY INCREASED THEIR BIDS ON PROJECTS IN COUNTRIES SUCH AS IRAQ, SAUDI ARABIA AND ELSEWHERE. INCREASED ENERGY PRICES ACCOUNTED FOR ONLY A MINOR PERCENTAGE OF THESE VASTLY INFLATED BIDS AND COSTS, AL-RASHID SAID. HE CLAIMED THAT HIGH PRICES FOR FOREIGN GOODS AND SERVICES HAD LED TO PRESSURES ON THE GOK FROM KUWAITI BUSINESSMEN TO COUNTERACT HIGH FOREIGN PRICES THROUGH AN OIL PRICE RISE.

5. TAKING UP POINT ABOUT MIDDLE EAST PEACE, AL-RASHID EXPRESSED PESSIMISM THAT GENEVA WOULD BE SUCCESSFUL.

PRESIDENT CARTER WAS TRYING, HE SAID, BUT ISRAELIS WOULD SIMPLY STRING THINGS ALONG. AL-RASHID WISHED PRESIDENT EVERY SUCCESS, BUT PREDICTED FAILURE. CHARGE REPLIED THAT CARTER ADMINISTRATION COMMITMENT IS CLEAR, AND THE TESTING TIME HAS NOT YET ARRIVED. PESSIMISM SHOULD NOT BE ALLOWED TO BECOME A SELF-FULFILLING PROPHECY AS HAD HAPPENED HISTORICALLY IN MIDDLE EAST CONFLICT. WE ARE MAKING PROGRESS IN STEPS TOWARDS MIDDLE EAST PEACE AND IT WOULD BE UNFORTUNATE IF THAT PROGRESS WERE UNDERMINED BY ACTIONS HAVING NEGATIVE CONSEQUENCES, SUCH AS AN OIL PRICE RISE. WITH RESPECT TO INFLATION, FACT OF MATTER WAS THAT US EXPORT PRICES HAD RISEN LESS THAN THE PRICE OF OIL OVER THE PAST THREE YEARS. INDUSTRIALIZED COUNTRIES WERE MAKING MAJOR EFFORTS TO CURB INFLATION AND MOVE TOWARD ECONOMIC SECRET

SECRET

PAGE 04 STATE 270676

STABILITY. IN SUCH A SITUATION WE LOOK TOWARD OPEC MEMBERS TO EXERCISE EQUAL STATESMANSHIP, CHARGE CONCLUDED.

6. COMMENT: LIKE MOST KUWAITIS, RASHID AL-RASHID HAS CLOSE RELATIVES IN BUSINESS AND BUSINESS INTERESTS OF HIS OWN. VEHEMENCE OF HIS REPLY WAS NO DOUBT PARTLY THEATRICAL BUT IT ALSO REFLECTS WIDE-SPREAD KUWAITI BELIEF THAT FOREIGN EXPORTERS AND CONTRACTORS USE OIL PRICE RISE AS EXCUSE TO PAD CONTRACTS AND PRICES. FACT THAT OTHER OECD MEMBERS SUCH AS JAPAN HAVE NOT MADE A DEMARCHE HERE ON OIL PRICES WILL NO DOUBT BE NOTICED AND COULD BE TAKEN TO REINFORCE KUWAITI VIEW THAT JAPANESE AND OTHERS ARE DOING VERY WELL AND ARE UNCONCERNED BY OIL PRICE INCREASES. (JAPANESE CHARGE HAS TOLD ECON CHIEF HE HAS NOT RECEIVED AND EXPECTS NO INSTRUCTION TO RAISE SUBJECT WITH GOK.) IF OUR DEMARCHES HERE AND IN OTHER OPEC CAPITALS ARE TO BE EFFECTIVE, IT STRIKES US THAT WE WILL NEED SUPPORT FROM OTHER OIL IMPORTING COUNTRIES, SINCE THRUST OF OUR ARGUMENT IS THAT NEGATIVE IMPACT OF OIL PRICE RISE FALLS NOT ONLY ON US BUT ON WHOLE WORLD. SUTHERLAND UNQTE VANCE

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